

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE
APPLICATION FOR APPROVAL
OF THE POWER SUPPLY
AGREEMENT (PSA) BETWEEN
VISAYAN ELECTRIC COMPANY,
INCORPORATED (VECO) AND
SOUTHWEST LUZON POWER
GENERATION CORPORATION
(SLPGC), WITH MOTIONS FOR
ISSUANCE OF PROVISIONAL
AUTHORITY AND CONFIDENTIAL
TREATMENT OF INFORMATION

ERC CASE NO.2015-137 RC

VISAYAN ELECTRIC COMPANY,
INCORPORATED (VECO) AND
SOUTHWEST LUZON POWER
GENERATION CORPORATION
(SLPGC),

Applicants.

X ----- X

D O C K E T E D
Date: SEP 24 2015
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on July 20, 2015, Visayan Electric Company, Incorporated (VECO) and Southwest Luzon Power Generation Corporation (SLPGC) filed an application for approval of their Power Supply Agreement (PSA), with motions for issuance of provisional authority and confidential treatment of information.

In the said application, VECO and SLPGC alleged, among others, that:

The Applicants

1. VECO is a domestic corporation duly organized and existing under the laws of the Republic of the Philippines, with principal business address at J. Panis Street, Banilad, Cebu City. It is the duly authorized distribution utility of the electric light, heat and power systems in the Municipalities of San Fernando, Minglanilla, Consolacion and Lilo-an and the Cities of Naga, Talisay, Cebu and Mandaue, all in the Province of Cebu (Franchise Area), pursuant to its franchise under Republic Act No. 9339;
2. SLPGC is a domestic corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office address at Balayan, Batangas. It owns and operates a 2 x 150 MW coal-fired power plant located at Calaca, Batangas (the Plant);

Nature of the Application

3. The application for approval of the PSA dated April 13, 2015, as amended on June 22 2015 between them, is being submitted to the Commission pursuant to Rule 20(B) of the ERC Rules of Practice and Procedure and other pertinent rules and regulations;

Statement of Facts

4. Previously, VECO sourced 120 MW or about thirty percent (30%) of its electricity requirements from the National Power Corporation (NPC)/Power Sector Assets and Liabilities Management Corporation (PSALM) under a Contract for Supply of Electric Energy (CSEE). On December 25, 2014, the said CSEE expired, and was not extended, leaving VECO with a supply deficit of 120 MW subsequent to the expiration thereof;

5. In fulfillment of its responsibility to provide secure and reliable supply to its end-users within the Franchise Area, VECO solicited offers from various generation suppliers, including 1590EC, SLPGC, Vivant Energy Corporation (VEC), Aboitiz Energy Solutions, Incorporated (AESI), Trans-Asia Power Generation Corporation (TA-OIL), Unified Leyte Geothermal Energy, Incorporated (ULGEI), and Cebu Energy Development Corporation (CEDC) to address its electricity requirements. Consequently, power supply agreements with AESI, ULGEI and VEC resulted with these companies offering supply at one hundred percent (100%) load factor. Since its baseload requirements are potentially covered by supply from AESI, ULGEI and VEC, VECO considered mid-merit and/or peaking plants to supply the remainder of its uncontracted electricity requirements;
6. While negotiations with SLPGC were being conducted, VECO, likewise, entered into an Interim Power Supply Agreement (IPSA) with 1590EC for a term of six (6) months from January 2015 or until June 25, 2015. This was to address its peaking requirement and to bridge the supply gap until SLPGC comes online;
7. On April 13, 2015 negotiations between them culminated in the execution of the PSA for the supply of 50 MW contracted capacity for a period of three (3) years;
8. They re-negotiated the above-mentioned PSA and, on June 22, 2015, executed the Amended PSA wherein they undertook, among others, to include in the application a motion for the issuance of a provisional authority by the Commission;
9. Under the foregoing circumstances, they now come before the Commission to apply for approval of the PSA, as amended, which has been entered into with due consideration of the best interests of the customers of VECO;

Salient Terms of the PSA

10. **Term.** The PSA has a Cooperation Period of three (3) years commencing on the *Start of Supply of Electricity* and ending on the third (3rd) anniversary thereof but not later than June 25, 2018¹;
11. **Contracted Capacity.** SLPGC shall supply and deliver 50 MW to VECO within the Cooperation Period with minimum monthly contracted energy set forth in Schedule 1 of the PSA, to be delivered at the Delivery Point indicated in Schedule 2. In case of Force Majeure, neither party shall incur any delay or be liable for non-performance of its obligations under the PSA;
12. **Outages.** The supply obligation of SLPGC shall be subject to an outage allowance of 1,080 hours or forty-five (45) days per Contract Year (Allowable Outage). During the Allowable Outage, VECO has the obligation to source replacement power at no cost to SLPGC. Beyond the Allowable Outage, SLPGC has the obligation to source replacement power which shall be for its account;
13. **Electricity Fees.** The Electricity Fees shall be as follows:

Monthly Electricity Fees:

$$\text{MP} = \text{FCP} + \text{FOMP} + \text{VOMP} + \text{EP} + \text{SSCP} + \text{VAT}$$

Where:

MP = Monthly Payment, PhP
= the total amount payable by VECO to SLPGC for the Billing Month

¹ Article 1 in relation to Article 3.2.1 of the Amended PSA:

“The obligation of SELLER to supply electricity in accordance with this Agreement shall commence at the start of the Billing Month immediately following the Commercial Operation Date or the date of issuance of the ERC Provisional Authority, whichever comes later.”

Composed of:

A. Fixed Capacity Payment, FCP

$$\text{FCP} = \text{FCF} \times \text{CC} \times \text{HA}$$

Where:

$$\text{FCP} = \text{FCF} \times \text{CC} \times \text{HA}$$

$$\text{FCF} = \text{PhP}2.0519/\text{kW/h}$$

$$\begin{aligned} \text{CC} &= \text{Contracted Capacity, kW} \\ &= \text{the 50,000 kW capacity reserved by} \\ &\quad \text{SLPGC for VECO} \end{aligned}$$

$$\begin{aligned} \text{HA} &= \text{the total number of hours where SLPGC is} \\ &\quad \text{available to supply to VECO all or part of} \\ &\quad \text{the Contracted Capacity, h} \end{aligned}$$

$$= 24\text{h} \times (\text{D}_M - \text{O}_M - \text{FM}_M)$$

Where:

$$\text{D}_M = \text{the total number of calendar days for the Billing Month}$$

$$\text{O}_M = \text{the total number of days during the Billing Month where SLPGC utilized the Allowable Outage computed as per Schedule 5}$$

$$\text{FM}_M = \text{the total number of days during the Billing Month affected by a Force Majeure event computed as per Schedule 5}$$

B. Fixed O&M Payment, FOMP

$$\text{FOMP} = \text{FOMF} \times \text{CPIA} \times \text{CC} \times (24\text{h} \times D_M)$$

Where:

FOMF = Fixed O&M Fee
= 0.6035 PhP/kW/h

CPIA = Philippine Consumer Price Index
(CPI) Adjustment
= $\text{CPI}_a / \text{CPI}_o$

CPI_a = Philippine CPI for the immediate
calendar month prior to the Billing
Month

CPI_o = Base Philippine CPI
= 140.5 (December 2014 reference)

CC = as previously defined

D_M = as previously defined

C. Variable O&M Payment, VOMP

$$\text{VOMP} = \text{VOMF} \times \text{CPIA} \times \text{TDQ}$$

Where:

VOMF = Variable O&M Fee
= PhP0.2948/kWh

CPIA = as previously defined

TDQ = Total Declared Quantity
= Equal to the total declared energy by SLPGC to VECO for the Billing Month, kWh. If the TDQ is less than the Contracted Energy for the Billing Month, the Contracted Energy will be used in place of the TDQ

D. Energy Payment, EP

$$EP = (CCFA + CTFA) \times TDQ$$

Where:

CCFA = Coal Commodity Fee with Adjustment, PhP/kWh

CTFA = Coal Transport Fee with Adjustment, PhP/kWh

TDQ = as previously defined

i. Coal Commodity Fee Adjustment, CCFA

$$CCFA = CCF \times ICIA$$

Where:

CCF = Coal Commodity Fee
= PhP1.4840/kWh

ICIA = Indonesian CPI (ICI) Adjustment
= $ICla/IClo$

ICla = ICI of the immediate calendar month prior to the Billing Month, US\$/MT

IClo = Base ICI
= 67.28 US\$/MT (December 2014 reference)

ii. Coal Transport Fee Adjustment, CTFA

$$CTFA = CTF \times [(40\% \times MOPA) + (15\% \times MWRA) + (45\% \times CPIA)]$$

Where:

CTF = Coal Transport Fee
= PhP0.2310/kWh

MOPA = Mean of Platts Singapore (MOPS) Index
Adjustment
= MOPa/MOPo

MOPa = the MOPS Diesel Oil (0.25% Sulfur Content)
Index for the calendar month immediately
preceding the relevant Billing Month, US\$/bbl

MOPo = Base MOPS Diesel Oil (0.25% Sulfur
Content) Index
= 76.583 US\$/bbl (December 2014 reference)

MWRA = the Minimum Wage Rate (MWR)
Adjustment
= MWRa/MWRo

MWRa = the applicable MWR for the National Capital
Region during the Billing Month, PhP/day

MWRo = Base MWR
= PhP466.0/day

CPIA = as previously defined

E. Start-Stop Costs Payment, SSCP (*Applicable only within Allowable Outage*)

$$\text{SSCP} = \text{SDC} + \text{SUC}$$

Where:

SDC = passed-through Shutdown Costs, PhP

SUC = passed-through Start-up Costs, PhP

i. Shutdown Costs, SDC

$$\text{SDC} = [\text{HFOV}_{\text{SD}} \times \text{HFOP}] + (\text{LFOV}_{\text{SD}} \times \text{LFOP}) \times (\text{CC}/\text{NPC})$$

Where:

HFOV_{SD} = the volume of heavy fuel oil consumed to facilitate ramping down until such time that the Unit is completely offline, Li

HFOP = the price of heavy fuel oil, based on the most recent Invoice prior to usage, PhP/Li

LFOV_{SD} = the volume of light fuel oil consumed to facilitate ramping down until such time that the Unit is completely offline, Li

LFOP = the price of light fuel oil, based on the most recent Invoice prior to usage, PhP/Li

CC = as previously defined

NPC = the Net Plant Capacity as defined in Section 1.1 of the PSA

ii. Start-up Costs, SUC

$$SUC = [(HFOV_{SU} \times HFOP) + (LFOV_{SU} \times LFOP)] \times (CC/NPC)$$

Where:

HFOV_{SU} = the volume of heavy fuel oil consumed to facilitate ramping up until such time that the Unit is operating at a stable load using coal, Li

HFOP = as previously defined

LFOV_{SU} = the volume of light fuel oil consumed to facilitate ramping up until such time that the Unit is operating at a stable load using coal, Li

LFOP = as previously defined

CC = as previously defined

NPC = as previously defined

F. Value- Added Tax, VAT

$$VAT = (FCP + FOMP + VOMP + EP + SSCP) \times VATR$$

Where:

FCP = Fixed Capacity Payment, PhP

FOMP = Fixed O&M Payment, PhP

VOMP = Variable O&M Payment, PhP

EP = Energy Payment, PhP

SSCP = Start-Stop Costs Payment, PhP

VATR = Value- Added Tax Rate, %
 = the applicable rate of the VAT imposed by the
 Philippine Government

14. **Other Charges.** All fees related to the delivery of power solely from SLPGC's trading node to the Delivery Point, such as line rental, transmission services, ancillary services, among others, shall be for the account of VECO;
15. **Security Deposit.** The posting of Security Deposit (SD) is initially waived by SLPGC. However, in the event of any payment default by VECO, it shall be required by SLPGC to post SD within seven (7) calendar days from written notice of such requirement to post SD. The SD shall be equivalent to one hundred percent (100%) of the average monthly power bill for the preceding twelve (12) months, or the average of previous monthly power bills, if VECO has not been required to post SD during the first twelve (12) months of the PSA. In the event that VECO fails to post SD, it shall incur an additional charge of PhP0.05/kWh;

Submissions in Support of the Application

16. In support of the application and in compliance with Rule 20(B) of the ERC Rules of Practice and Procedure, they are submitting the following documents, which are attached as annexes and made integral parts thereof:

Name of Document	Reference
Articles of Incorporation of SLPGC	Annex A
Securities and Exchange Commission (SEC) Certificate of Registration of SLPGC	Annex B
Latest General Information Sheet (GIS) of SLPGC	Annex C
Board of Investment (BOI) Certificate of Registration of SLPGC	Annex D
Environmental Compliance Certificate (ECC) issued by the Department of Environment and Natural Resources (DENR)	Annex E
PSA dated April 13 2015	Annex F

Amended PSA dated June 22, 2015	Annex F-1
Sources of Funds/Loan Terms	Annex G
Financial Model/Purchased Power Rate computation [includes Debt/Equity Ratio, Project Cost, Cash Flow and Computation of Return on Investment/Weighted Average Cost of Capital (WACC)]	Annex H and series
SLPGC fuel supply contract	Annex I
VECO's Transmission Service Agreement (TSA)	Annex J
Certification from the National Grid Corporation of the Philippines (NGCP) on SLPGC's application for TSA and Connection Agreement (CA)	Annex K
Certification from the Commission on SLPGC's application for Certificate of Compliance (COC)	Annex L
All relevant technical and economic characteristics of the generation capacity, Installed Capacity, Mode of Operation, and Dependable Capacity	Annex M
Details on the procurement process used by VECO leading to the selection of SLPGC and support for the motion for the issuance of the provisional authority for the PSA	Annex N
Distribution Development Plan (DDP) of VECO	Annex O
VECO's historical and forecasted Daily Load Curve	Annex P
VECO's historical and forecasted Demand/Supply Scenario	Annex Q
Rate Impact Analysis	Annex R
Acknowledgment receipt by the <i>Sangguniang Panlungsod</i> of Cebu of a copy of the application/petition (with all annexes and accompanying documents)	Annex S
Publication in a newspaper of general circulation within its franchise area of the entire application or petition (excluding its annexes) specifying the rate impact per customer class	Annexes T and T-1
CD-ROM containing the softcopy of the application and the annexes	Annex U

17. As required by the ERC Rules of Practice and Procedure, an analysis was conducted to determine the impact of the implementation of the PSA on VECO's generation costs once the same is approved:

Particulars	Generation Rate		
	With PSALM (No Unified Leyte Strips and SLPGC)	With Unified Leyte Strips and Reduced PSALM (No SLPGC)	With Unified Leyte Strips and SLPGC (No PSALM)
Rate (PhP/kWh)	5.3533	5.8163	5.6723
Difference vs. with PSALM only (PhP/kWh)		0.4630	0.3190

Assumptions:

- 2016 kWh Purchases using four percent (4%) annual growth
- Using 2013 Historical Wholesale Electricity Spot Market (WESM) Prices
- Forecast Average Cost from April – July 2016

18. Due to the expiration of the CSEE and its non-renewal as a result of the privatization of the Unified Leyte Geothermal Power Plant (ULGPP), VECO faces a supply deficiency as high as 120 MW in the summer of 2016. The supply from the Plant will definitely help address a portion of this deficiency. In this regard, they request the approval of the PSA by the Commission to enable continuous and reliable supply of electricity to serve the requirements of end-users in the Franchise Area;

**Motions for Issuance of Provisional Authority and
Confidential Treatment of Documents**

19. They move for the issuance of a provisional approval of the PSA, as amended, pending trial on the merits thereof, on the following grounds:
- a. **Expiration and Non-renewal of the CSEE with PSALM.** The expiration of the CSEE of VECO with PSALM on December 25, 2014 and the non-extension thereof due to the privatization of ULGPP, result in a deficiency of about 120 MW in the total demand of VECO. The present PSA with SLPGC will help

address such deficiency and will aid in ensuring sufficient supply of the requirements of VECO's customers; and

- b. **Continuing Demand Growth.** As illustrated in its DDP, VECO is expecting a growth in the total demand of its end-users so that, coupled with the expiration and non-extension of its CSEE with PSALM, there will be a supply gap that urgently needs to be filled. In addition, the entire supply deficit resulting from the expiration of the NPC CSEE has not been covered by power supply agreements entered into after its expiration. In fact, the IP SA with 1590EC has already expired last June 25, 2015. Without the PSA, VECO and ultimately, its end-users, may be forced to resort to the volatile prices of the WESM.

Attached to the application as Annex "N" is an affidavit in support of the motion for the issuance of provisional authority for the PSA;

20. Under Rule 4 of the ERC Rules of Practice and Procedure, the Commission may, upon request of a party and determination of the existence of conditions which would warrant such remedy, treat certain information submitted to it as confidential;
21. Annexes "G", "H", "I", and certain files contained in Annex "U" in the instant application contain certain non-public information, data and calculations involving business operations and financial trade secrets reflecting their investment and business calculations and, as such, are confidential in nature. Thus, they submit that the said documents should be treated as confidential documents and information in the application, which should be maintained separate and apart from the records of the case and should not be disclosed to third persons other than the officers and staff of the Commission. Accordingly they hereby submit one (1) copy each of Annexes "G", "H", "I", and certain files in Annex "U" in a sealed envelope, with the said envelope and each page of the documents and file stamped with the word "*Confidential*";

Prayer

22. Thus, they pray that the Commission:
- a. Issue an Order treating Annexes "G", "H", "I", and certain files contained in Annex "U" and the information contained therein as confidential, directing their non-disclosure to persons other than the officers and staff of the Commission, and directing the separation of the confidential documents and information from the records of the case, as necessary, pursuant to Rule 4 of the ERC Rules of Practice and Procedure, and prescribing the guidelines for the protection thereof;
 - b. Pending trial on the merits, issue an Order granting provisional authority and approval for the PSA, as amended; and
 - c. Approve their PSA dated April 13, 2015, as amended, including the rates and fees as contained therein.

The Commission has set the application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **October 29, 2015 (Thursday) at nine-thirty in the morning (9:30 A.M.) at the ERC Visayas Field Office, St. Mary's Drive, Banilad, Cebu City.**

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicants conclude the presentation of their evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicants, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicants are hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

WITNESS, the Honorable Chairman, **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, Energy Regulatory Commission, this 1st day of September, 2015 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III